*Program 080*

# DSHS - Medical Assistance Payments

## Recommendation Summary

Dollars in Thousands

| | Annual FTEs | General Fund State | Other Funds | Total Funds |
|---|---|---|---|---|
| **2003-05 Expenditure Authority** | 1,028.6 | 2,368,690 | 4,893,941 | 7,262,631 |
| **Total Maintenance Level** | 1,088.0 | 3,005,931 | 4,941,496 | 7,947,427 |
| Difference | 59.5 | 637,241 | 47,555 | 684,796 |
| Percent Change from Current Biennium | 5.8% | 26.9% | 1.0% | 9.4% |
| **Performance Changes** | | | | |
| Medicaid Buy-In | | | (14,058) | (14,058) |
| Graduate Medical Education | | (4,305) | (4,305) | (8,610) |
| Medicaid Eligible Basic Health Adults | | 8,167 | 8,167 | 16,334 |
| Children's Medical Premiums | | | 19,564 | 19,564 |
| Eligibility Reviews | | | 16,040 | 16,040 |
| Increase Trauma Payments | | | 1,000 | 1,000 |
| Hospital Payment Study | | 450 | | 450 |
| Selective Contracting | | 2,000 | 2,000 | 4,000 |
| Review Evidence-Based Purchases | | 206 | 207 | 413 |
| Contract Out Drug Rebate Collection | | (50,000) | (50,000) | (100,000) |
| Patients Requiring Review | 8.0 | (8,496) | (8,496) | (16,992) |
| Washington Federation of State Employees Cost of Living Adjustment/Salary Survey | | 620 | 1,964 | 2,584 |
| Service Employees International 1199 Cost of Living Adjustment | | 1 | 3 | 4 |
| Super Coalition Health Benefits | | 537 | 1,652 | 2,189 |
| Performance Pay | | 144 | 283 | 427 |
| Nonrepresented Employees Cost of Living Adjustment | | 578 | 1,138 | 1,716 |
| Nonrepresented Employees Health Benefit Change | | 164 | 328 | 492 |
| Pension Method Change | | (786) | (2,039) | (2,825) |
| Nonrepresented Salary Survey Implementation | | 44 | 44 | 88 |
| General Inflation | | (612) | (3,452) | (4,064) |
| FTE Staff Adjustment | (.1) | | | |
| Transfers | (.1) | (2) | (2) | (4) |
| Expanding Preventative Medical Services | | (24,570) | (24,570) | (49,140) |
| IGT Design | | (31,471) | (351,184) | (382,655) |
| Medical Nutrition Scope of Coverage | 3.0 | (2,584) | (2,583) | (5,167) |
| School Ad-Match | (2.0) | (123) | (18,121) | (18,244) |
| MAA Relocation | | 672 | 1,372 | 2,044 |
| Service Rate Increase | | 51,924 | 45,997 | 97,921 |
| Emergency Department Utilization | 1.5 | 958 | 959 | 1,917 |
| Safe Babies/Safe Moms Sustainable Fund | | 1,760 | 1,440 | 3,200 |
| Part D Administration Costs | 9.0 | 584 | 581 | 1,165 |
| **Subtotal** | 19.3 | (54,140) | (376,071) | (430,211) |
| **Total Proposed Budget** | 1,107.3 | 2,951,791 | 4,565,425 | 7,517,216 |
| Difference | 78.8 | 583,101 | (328,516) | 254,585 |
| Percent Change from Current Biennium | 7.7% | 24.6% | (6.7)% | 3.5% |

| | Annual FTEs | General Fund State | Other Funds | Total Funds |
|---|---|---|---|---|
| **Total Proposed Budget by Activity** | | | | |
| Administrative Costs | 622.1 | 44,291 | 180,805 | 225,096 |
| Disproportionate Share Hospital/Proshare | 2.0 | (32,585) | 215,169 | 182,584 |
| Mandatory Medicaid Program for Children and Families | 341.6 | 2,478,068 | 2,791,992 | 5,270,060 |
| Medicaid for Optional Children | 87.0 | 78,548 | 846,549 | 925,097 |
| Medicaid Program for Aged, Blind and Disabled | 23.4 | 195,918 | 145,144 | 341,062 |
| Medical Care for General Assistance Unemployable and ADATSA | 1.6 | 104,825 | 19,773 | 124,598 |
| Optional Health Benefits: Dental, Vision, and Hearing | 19.2 | 72,320 | 175,440 | 247,760 |
| SCHIP | 2.1 | 1,186 | 10,573 | 11,759 |
| Special Programs | 8.5 | 6,877 | 173,909 | 180,786 |
| Compensation Cost Adjustment | | 2,343 | 6,071 | 8,414 |
| **Total Proposed Budget** | 1,107.3 | 2,951,791 | 4,565,425 | 7,517,216 |

**PERFORMANCE LEVEL CHANGE DESCRIPTIONS**

**Medicaid Buy-In**
The Healthcare for Workers with Disabilities program, otherwise known as Medicaid Buy In, is eliminated. The program allows people with disablities who are working to purchase medical coverage by paying a monthly premium based on their income. (General Fund-Federal, Health Services Account-State)

**Graduate Medical Education**
Payments are made to teaching hospitals in the state to provide for graduate medical education costs. These payments are intended to assist in developing new physicians, concurrent with the provision of services to the patients of teaching hospitals. Payments are made in accordance with an established methodology approved by the Centers for Medicare and Medicaid Services (CMS). This item reduces the total graduate medical education payments made to state teaching hospitals by 15 percent. (General Fund-State, General Fund-Federal)

**Medicaid Eligible Basic Health Adults**
As of January 1, 2006, adults who are eligible for Medicaid medical coverage will no longer be eligible for Basic Health coverage. It is assumed that 2,634 current Basic Health enrollees qualify for Medicaid. The state cost for Basic Health subsidization for this group is $9,380,000. The state cost for providing Medicaid coverage to the same group is $8,444,000 - a state savings of $936,000. Spending authority is added to the Medical Assistance Administration's budget to accommodate this transfer. (General Fund-State and Federal)

**Children's Medical Premiums**
Children's medical premiums for families between 150 and 200 percent of the federal poverty level will be delayed through June 2007. The federal government has approved the state's proposal to charge monthly premiums for medical, dental, and mental health coverage of children whose family incomes are above the poverty level. The 2003-05 supplemental budget assumed premiums would be implemented as follows: $10 per child per month for families with incomes between 150 and 200 percent of the poverty level; and $15 per child per month for families with incomes between 200 and 250 percent of the poverty level. The maximum amount due from any family is capped at three children per household. In light of falling children's caseloads related to other factors, the Governor directed that premiums for families with incomes between 150 and 200 percent of the poverty level be delayed until July 2005. The Medical Assistance Administration forecast assumes those premiums go into effect at that time and funding is added to further delay them. (Health Services Account-State, General Fund-Federal)

**Eligibility Reviews**
Children's eligibility reviews will occur every 12 months rather than every six months and, once eligible, children will remain eligible until the next review. These changes are expected to result in 13,246 children remaining on, rather than dropping off, the caseload in Fiscal Year 2007. (General Fund-Federal; Health Services Account-State)

**Increase Trauma Payments**
Current revenue projections in the Emergency Medical Services and Trauma Care Systems Trust Account indicate that there is capacity for a modest increase in the volume of trauma payments that can be made in the 2005-07 Biennium. (General Fund-Federal, Emergency Medical Services and Trauma Care Systems Trust Account-State)

**Hospital Payment Study**
Medical Assistance Administration's (MAA) hospital payment structure for inpatient claims has been developed over many years. During this time, many individual policy efforts have been folded into the payment structure. The last year that a rebasing of the rates occurred was in 1998. MAA is directed to contract with an outside entity to conduct a thorough examination of the hospital inpatient payment structure and to recommend a new payment structure that is balanced, equitable and that uses up-to-date cost data. The study should make use of complete cost data from a wide variety of hospitals, it should recognize the unique structure of inpatient hospital services in Washington, and it should recommend a new or updated payment system that rewards efficiently operated hospitals. The study should include, but does not have to be limited to, the following elements: the selective contracting waiver program, border hospital reimbursements, Critical Access Hospital (CAH) Medicaid reimbursements, and specialty hospital payment methodologies.

**Selective Contracting**
The Hospital Selective Contracting program pays hospitals lower rates than they would otherwise receive in exchange for patients being directed to use the hospitals. Some of these hospitals need a rate increase to ensure their continued participation in the program, which saves the state about $10 million per year. (General Fund-State, General Fund-Federal)

**Review Evidence-Based Purchases**
The Agency Medical Directors' Group (AMDG) has devised a pilot to strengthen the capacity of the AMDG's member agencies to obtain and evaluate scientific evidence regarding evolving health care procedures, services, and technology. The pilot will allow agencies to coordinate their evaluations and will support additional progress in the area of evidence-based health purchasing. Participating agencies are: the Health Care Authority, the Department of Social and Health Services Medical Assistance Administration, the Department of Labor and Industries, the Department of Corrections, and the Department of Veterans' Affairs. The cost of this project is split among the agencies based on the proportion of their state health expenditures. (General Fund-State, General Fund-Federal)

**Contract Out Drug Rebate Collection**
Medical Assistance Administration will contract for drug ingredient supplemental rebates through an outside entity. Based on a preliminary analysis by the department's consulting actuary, it is estimated that this purchasing strategy will generate approximately $100 million of savings during the 2005-07 Biennium. (General Fund-State, General Fund-Federal, Health Services Account-State)

**Patients Requiring Review**
The Patient Review and Restriction program (PRR) is a federal and state Medicaid requirement to control over-utilization and inappropriate use of medical services by clients. Clients who have been on the PRR program have shown a 48 percent decrease in emergency room use, a 41 percent decrease in office visits, and a 29 percent decrease in the number of prescriptions. Current estimates show that MAA can achieve $12 in savings for every dollar invested in the program. Eight FTE staff are added to increase the number of clients for review and placement into the PRR program. (General Fund-State, General Fund-Federal)

**FTE Staff Adjustment**
DSHS will centralize background check FTE staff in the Background Checks Central Unit.

**Transfers**
Funding and FTE staff are transferred for certain functions currently split among various DSHS administrations to centralize those functions within the agency. (General Fund-State, General Fund-Federal)

**Expanding Preventative Medical Services**
Alcohol and drug treatment service levels are increased for adults with co-occurring, but chemically dependent related problems. The recipients of these services often require emergency services from programs in DSHS, such as medical, mental health, and long-term care. The expansion of the program will be phased in over the biennium with the goal of reaching 40 percent penetration of potential clients by the end of Fiscal Year 2006 and 60 percent penetration by the end of Fiscal Year 2007. In addition to savings in Medical Assistance, shown here, additional savings are expected in the areas of Long Term Care and Mental Health. (General Fund-State, General Fund-Federal)

**IGT Design**
The Centers for Medicare and Medicaid Services (CMS) has notified Washington State that the intergovernmental transfer structure (IGT) will no longer be approved. A new methodology will be implemented to satisfy the requirements of CMS. (General Fund-State, General Fund-Federal, General Fund-Local, Health Services Account-State)

**Medical Nutrition Scope of Coverage**
The department will implement uniform policy changes that include standardizing medical necessity language; monitoring program compliance; monitoring expenditures; and determining cost effectiveness for the medical nutrition program within the Medical Assistance Administration. As a result of these changes, savings of approximately 30 percent of total program expenditures are anticipated. (General Fund-State, General Fund-Federal)

**School Ad-Match**
Federal spending for the Medicaid administrative activities provided by school districts has declined as a result of new federal guidelines. The amount of federal Medicaid Ad-Match appropriation is reduced to reflect this program change. (General Fund-State and General Fund-Federal)

**MAA Relocation**
The Medical Assistance Administration is located in a building that is 25 years old and no longer meets the needs of the program, nor will it accommodate the replacement of the Medicaid Management Information System (MMIS) that is currently underway. MAA will move to a new location in 2005, and one-time funding is provided for this purpose. (General Fund-State, General Fund-Federal)

**Service Rate Increase**
Medical Assistance Administration's rates for physician-related services have not kept pace with medical inflation or medical malpractice costs. To start to address the problem and to help sustain participation in the state's Medicaid program, physician-related service payment rates are increased to a minimum of 75.5 percent of Medicare rates. Services currently reimbursed at 75.5 percent or better are not affected. (General Fund-State, General Fund-Federal, Health Services Account-State)

**Emergency Department Utilization**
A January, 2004 study by the department showed that a small portion (1.5 percent) of Medicaid fee-for-service Emergency Room (ER) users incurred 15 percent of total ER visits. This small percent made more than 12 visits per year, compared to one or two visits per year for another 79 percent of users. This project will target 1,000 high users of emergency rooms and match them with local case managers to steer them to appropriate, less expensive health care. Case managers will be used to assist these frequent ER users to get needed health care, pain management services, mental health, and chemical dependency treatment as appropriate, thereby reducing the need to inappropriately utilize emergency care. (General Fund-State, General Fund-Federal)

**Safe Babies/Safe Moms Sustainable Fund**
The Safe Babies/Safe Moms program is for Medicaid-eligible pregnant and parenting women identified as "at-serious risk for, or currently using" alcohol or substances. A women may be enrolled during pregnancy or anytime before her youngest child turns three years old. Sustained funding is provided within the MAA budget to continue providing this effective service. (General Fund-State, General Fund-Federal)

**Part D Administration Costs**
Beginning January 2006, Medicare beneficiaries will be able to obtain prescription drug coverage through the Medicare program. Low-income beneficiaries will be able to obtain subsidized coverage. The Department of Social and Health Services (DSHS) and local Social Security Administration offices will be required to determine eligibility for this assistance. DSHS will need additional resources to provide this service. (General Fund-State, General Fund-Federal)

**ACTIVITY DESCRIPTIONS**

**Administrative Costs**
This activity reflects both the Division of Disability Determination Services and the Medical Assistance Administration's (MAA's) operating costs across all activities. (Health Services Account-State)

**Disproportionate Share Hospital/Proshare**
Congress established the Disproportionate Share Hospital (DSH) program to ensure continued operation of those hospitals most heavily impacted by charity and Medicaid caseloads. The Department of Social and Health Services operates DSH and several intergovernmental transfer (IGT) and refinancing programs to maximize federal revenue. In the 1999-01 Biennium, the state opted to expand the IGT programs to include public hospital district nursing homes, and further maximize federal revenue using IGTs with the University of Washington and Harborview Medical Center. In prior biennia, participating hospitals and nursing facilities throughout the state have been allowed to keep a percentage of the revenue earned through some of these programs.

**Mandatory Medicaid Program for Children and Families**
Mandatory clients of this program are families and children eligible to receive Temporary Assistance to Needy Families (TANF); families and individuals terminated from TANF because they have increased earnings or hours of employment or Social Security Disability Insurance income; individuals who are ineligible for TANF because of requirements that do not apply to Medicaid; eligible pregnant women and their newborns; individuals receiving Social Security Income or those eligible to receive mandatory state supplements; and children in foster care or adoption support. Mandatory Medicaid services for eligible clients include inpatient and outpatient hospital care, rural health clinic services, laboratory and X-ray services, nursing home services for clients 21 years or older (other than those in mental hospitals or institutions for the developmentally disabled), EPSDT (Early and Periodic Screening, Diagnosis, and Treatmen) health care program for children, family planning, physician care, and home health.

**Medicaid for Optional Children**
Medicaid services are provided to those children who do not qualify under the federal mandatory guidelines, but live in families with incomes less than 200 percent of the federal poverty level. (Health Services Account-State)

**Medicaid Program for Aged, Blind and Disabled**
Medically Needy (MN) is a federal and state-funded Medicaid program for aged, blind, or disabled individuals with incomes above $571 per month and/or resources above $2,000. Clients with income in excess of this limit are required to spend down excess income before medical benefits can be authorized. (Health Services Account)

**Medical Care for General Assistance Unemployable and ADATSA**
General Assistance-Unemployable (GA-U) is a state-funded program that provides limited medical care to persons who are physically and/or mentally incapacitated and unemployable for more than 90 days. Limited medical care is also provided to people participating in the state-funded Alcoholism and Drug Addiction Treatment and Support Act (ADATSA) program which provides cash and/or medical benefits, treatment, and support for persons who are unemployed due to drug or alcohol abuse. (Health Services Account)

**Optional Health Benefits: Dental, Vision, and Hearing**
Federal regulations allow states to cover optional services such as hearing, dental, and vision care under Medicaid, as long as those services are listed in the state plan.

**SCHIP**
The State Children's Health Insurance Program (SCHIP) currently provides health coverage to about 12,000 children up to age 19, who live in households with income between 200 and 250 percent of the federal poverty level. (Health Services Account-State)

**Special Programs**
This activity includes family planning and pass-through dollars to school health services, school districts, Indian nations, etc. (Health Services Account-State)

**Compensation Cost Adjustment**
This item reflects proposed compensation and benefit cost adjustments that were not allocated to individual agency activities. The agency will assign these costs to the proper activities after the budget is enacted.